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RUEHBY/AMEMBASSY CANBERRA 3378
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SUBJECT: INDONESIA OIL AND GAS HIGHLIGHTS - NOVEMBER 2008

11. Summary. Indonesian crude oil production has increased in 2008 relative to 2007, although it is below government target of 1 million barrels per day. U.S. companies won 4 of 31 new oil and gas exploration contracts. The Indonesian government is trying several methods to boost its balance of payments from the oil and gas sector, including reducing foreign oil purchases and requiring contractors to keep operating funds in local banks. Indonesia reduced its subsidized fuel prices due to falling oil prices, and domestic natural gas consumption continues to increase with an expanded pipeline network. End Summary.

Production and Exploration

12. According to oil and gas upstream regulator BP Migas, average oil production as of October 2008 was 977,200 barrels per day (bpd), which is only a slight increase compared with last year's production of 954,400 bpd. It is still below the Indonesian government target of 1 million bpd for 2008. According to the Ministry of Energy Office and Mineral Resources, Indonesia had proven and potential oil reserves of 8.4 billion barrels and produced about 348 million barrels in 2007. In the natural gas sector, Indonesia had proven and potential reserves of around 165 trillion standard cubic feet (TSCF), with production of around 2.7 TSCF in 2007.

13. On October 17, the Directorate General of Oil and Gas (MIGAS) announced 22 winners of oil and gas direct tenders from a total of 25 blocks offered in May 2008. Total investment for the first three years of exploration of these blocks will be about \$375.5 million. Two U.S. companies participated in the tender, ConocoPhillips on Arafua Sea and Chevron Indonesia in West Papua. On the same day, MIGAS also offered 31 new oil and gas blocks, with 16 blocks being offered through a regular tender while the rest will be offered directly as a result of joint studies. On October 31, MIGAS announced 9 winners from 21 blocks offered in January 2008. The companies are committed to do the exploration for three years with total investments amounting to \$465.1 million. Two of these winners were U.S. companies - ExxonMobil in East Java, and Hess in West Papua.

Balance of Payments

14. In order to boost the balance of payments surplus, on October 28 the Ministry of Energy and Mineral Resources announced a plan to minimize fuel imports, increase commodity exports and support foreign investment in the energy and minerals sector. Indonesia has

already reduced purchases of crude oil for refining, beginning in November. Plans to expand commodity exports have so far not been announced.

15. On November 19, upstream regulator BP Migas announced a plan to strengthen Indonesia's forex reserves by requiring local and foreign oil and gas production sharing contractors (PSCs) and subcontractors to use local banks for all transactions to be claimed as cost recovery. PSC contractors already keep most of their funds for local operations in local banks, although international subcontractors often do not. The Ministry of Energy and Mineral Resources has not yet put out regulations on this policy, but expects to do so in December.

Subsidy

16. On November 18, the Director of Program Supervision in the Directorate General of Oil and Gas, Heri Purnomo, said that there is a strategy to substitute subsidized kerosene with liquid petroleum gas (LPG). During 2008 households consumed 7,838,337 KL of subsidized kerosene, accounting for 79.6% of household fuel consumption, compared with only 2,013,475 KL of LPG. In 2009 Heri Purnomo expects the proportions to be switched, with kerosene consumption at 3,087,144 KL (31.3%) and LPG equal to 6,764,668 KL (68.66%). The Indonesian government retains a subsidy on all LPG, after a plan to remove subsidies on 12 kg and 50 kg canisters of LPG (but keep them for 3 kg canisters) was scrapped in September.

17. Due to falling crude oil prices, the government has announced

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plans to cut the price of subsidized gasoline from Rp 6,000 (\$0.50) per liter to Rp 5,500. The subsidized prices of diesel fuel and kerosene remain unchanged at Rp 5,500 and Rp 2,500 respectively per liter, although the government has indicated that it may reduce the price of subsidized diesel in December.

Downstream

18. As of June 2008, state-owned downstream natural gas company PT Perusahaan Gas Negara (PGN) transported 743 million standard cubic feet per day (MMSCFD) of natural gas through its transmission pipeline for 2008 to Chevron in Singapore. It was a slight increase compared with 720 MMSCFD delivered for the same period in 2007. Moreover, PGN has increased the volume of gas sold to domestic customers through its distribution network by 42% to 551 MMSCFD, compared with 389 MMSCFD sold in the previous year. The increase was due to gas distribution through the South Sumatra West Java (SSWJ) pipeline that started in August 2007.

HUME